

**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**



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AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable R.W. Gilbert, Lincoln County Judge/Executive
Honorable Shelby Ray Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Lincoln County, Kentucky, for the year ended December 31, 2002.

We engaged Carpenter, Mountjoy & Bressler, PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC, evaluated the Lincoln County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LINCOLN COUNTY SHERIFF

For The Year Ended
December 31, 2002

Carpenter, Mountjoy & Bressler, PSC has completed the Lincoln County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$13,386 from the prior year, resulting in excess fees of \$690 as of December 31, 2002. Revenues decreased by \$2,380 from the prior year and disbursements increased by \$11,006.

Report Comments:

- Sheriff Did Not Publish Settlement Within 60 Days Of End Of Fiscal Year
- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Carpenter, Mountjoy & Bressler

Certified Public Accountants and Consultants

To the People of Kentucky

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Lincoln County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

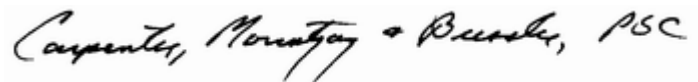
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In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- Sheriff Did Not Publish Settlement Within 60 Days Of End Of Fiscal Year
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC".

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
September 30, 2003

LINCOLN COUNTY
SHELBY RAY LAKES, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

State:

Kentucky Law Enforcement Foundation Program Fund	\$ 16,488	
Court Security	45,594	
Finance and Administration Cabinet	<u>5,788</u>	\$ 67,870

Circuit Court Clerk:

Sheriff Security Service	\$ 12,721	
Fines and Fees Collected	5,737	
Court Ordered Payments	<u>7,990</u>	26,448

Fiscal Court		10,180
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County Clerk - Delinquent Taxes		2,215
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Commission On Taxes Collected		132,849
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Fees Collected For Services:

Auto Inspections	\$ 5,620	
Accident and Police Reports	868	
Serving Papers	16,260	
Carrying Concealed Deadly Weapon Permits	<u>5,775</u>	28,523

Other:

Sheriff's Add-On Fees and Advertising	\$ 28,135	
Miscellaneous	6,576	
Change Fund	<u>300</u>	35,011

Interest Earned		1,679
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Borrowed Money:

State Advancement		<u>94,664</u>
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Total Receipts		<u>\$ 399,439</u>
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The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY
 SHELBY RAY LAKES, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	133,241
Court Security Salaries		42,021
Other Salaries		23,087
KLEFPF Salary		15,500

Auto Expense-

Vehicle Maintenance and Repairs		5,769
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Materials and Supplies-

Office Materials and Supplies		3,034
Uniforms		983

Other Charges-

Postage		265
Carrying Concealed Deadly Weapon Permits		4,035
Lincoln Co. Ordinance		7,940
Transport Prisoners		273
Miscellaneous		1,231
		<u>1,231</u>

\$ 237,379

Debt Service:

State Advancement		<u>94,664</u>
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Total Disbursements

\$ 332,043

Net Receipts

\$ 67,396

Less: Statutory Maximum

66,706

Excess Fees Due County for 2002

\$ 690

Excess Fees Paid to County - September 30, 2003

690

Balance Due at Completion of Audit

\$ 0

The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 20, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Grants

The Fiscal Court received two grants for the Sheriff's office. The first grant is a Body Armor Program from the Department for Local Government in the amount of \$2,320. There were no funds expended from this grant during calendar year 2002. The second grant is a COPS Universal Hiring Program from the U.S. Department of Justice in the amount of \$150,000. There were no funds expended from this grant during calendar year 2002.

COMMENTS AND RECOMMENDATIONS

LINCOLN COUNTY
SHELBY RAY LAKES, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

Sheriff Did Not Publish Settlement Within 60 Days Of End Of Fiscal Year

KRS 424.220(6) and (8) states that

(6) "the Sheriff shall, within sixty (60) days after the close of the sheriff's fiscal year (i.e., the calendar year), cause the financial statement to be published in full in a newspaper qualified under KRS 424.120 to publish advertisements for the county. Promptly after the publication is made, the sheriff shall file a written or printed copy of the advertisement with proof of publication, in the office of the county clerk of the county and with the Auditor of Public Accounts. Promptly after the publication is made, the sheriff shall also file one (1) copy of the financial statement with the Kentucky Department for Local Government."

(8) "In lieu of the publication requirements of subsection (6) of this section, the Sheriff may elect to satisfy the requirements of subsection (6) of this section by publishing an audit, prepared in accordance with KRS 43.070 or 64.810, in the same manner that city audits are published in accordance with KRS 91A.040(7)."

We suggest that the Sheriff publish the 2002 audited financial statement as soon as possible. In future years, the Sheriff should comply with KRS 424.220(6) and (8).

County Sheriff's Response:

Will be published promptly.

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

We conclude the internal control structure in the Sheriff's office lacks a proper segregation of duties. There is a limited number of staff that is responsible for the receipting, disbursing, recording and reporting duties. Even though the Sheriff has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements, compensating controls are not adequate to exclude the lack of adequate segregation of duties comment. Management has decided to limit the number of personnel responsible for these duties and accepts the risk for a lack of adequate segregation of duties. In order to offset this internal control weakness, we recommend the Sheriff assign duties to another deputy/employee. Duties that should be separated include preparing deposits, reconciling bank statements, opening mail, and preparing and distributing checks. The other deputy/employee should document performing these duties by initialing and dating documentation.

County Sheriff's Response:

Inadequate personnel to comply.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties - this comment has not been corrected and is repeated in this report.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Lincoln County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated September 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lincoln County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- Sheriff Did Not Publish Settlement Within 60 Days Of End Of Fiscal Year

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

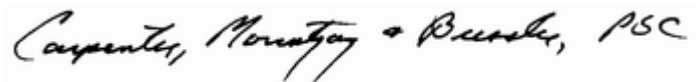
In planning and performing our audit, we considered the Lincoln County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
September 30, 2003

